

## Message Text

LIMITED OFFICIAL USE

PAGE 01 TOKYO 11592 020939Z

17

ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 /105 W

----- 098549

P 020842Z AUG 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 1287

INFO AMEMBASSY MANILA PRIORITY

LIMITED OFFICIAL USE TOKYO 11592

MANILA FOR U.S. ADB

E.O. 11652: N/A

TAGS: EAID, FIN

SUBJECT: INCREASE IN ADB LENDING RATE

REF: STATE 188415

1. SUMMARY: MOF OFFICIAL SAID GOJ PREFERS "SOUND BANKING POLICIES" FOR ADB AND THUS SHARES MANY U.S. VIEWS. MOF CAN ACCEPT ADB MANAGEMENT PROPOSALS FOR AUG 5 BOARD MEETING. ON OTHER HAND, IF MAJORITY VIEW IS TO MODIFY THEM, I.E. WATER THEM DOWN, IN USG EYES, GOJ WOULD PREFER TO GO ALONG WITH MAJORITY RATHER THAN RAISE THE SPECTER OF GOJ "CONFRONTATION." END SUMMARY.

2. FINATT DISCUSSED U.S. POSITIONS ON SUBJECT AND SOUGHT GOJ VIEWS FROM KAYA, DIR, OVERSEAS INVESTMENT DIV, INTL FIN BUR, MOR. KAYA RECEPTIVE TO MANY OF THE U.S. VIEWS PRESENTED IN REFTEL BUT SAID JAPAN PREFERS MUCH MORE FLEXIBILE APPROACH IN IMPLEMENTING SOUND BANKING POLICIES.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TOKYO 11592 020939Z

3. LENDING RATE: MANAGEMENT PROPOSAL OF 9.15 PERCENT

PERFECTLY ACCEPTABLE TO GOJ. KAYA NOTED THIS WOULD BE LARGEST SINGLE INCREASE EVER FOR ADB. OVER LONGER RUN, JAPAN WOULD PREFER TO RAISE SPREAD BETWEEN LENDING AND BORROWING RATE AT TIME WHEN RATES ARE BELOW "AVERAGE." AT PRESENT TIME, WITH LENDING RATE ABOVE "AVERAGE," GOJ PERFECTLY WILLING TO SEE SPREAD TEMPORARILY REDUCED. FOR THIS REASON GOJ WOULD NOT STRONGLY OBJECT TO RAISING LENDING RATE TO ONLY 9.1 PERCENT IF THAT IS THE MAJORITY VIEW. IT WAS APPARENT FROM KAYA'S COMMENTS THAT JAPANESE DIRECTOR TO ADB WOULD DO LITTLE IF ANY LOBBYING ON THIS OR OTHER ISSUES TO BE DISCUSSED BY BOARD.

4. PREMIUM RATE: KAYA SEES NO REASON TO LOWER RATE EVEN TO .60 PERCENT BUT SAYS GOJ IN NO POSITION TO TRY TO BLOCK COMPLETE AVOLITION OF PREMIUM RATE IF THAT IS THE CONSENSUS.

5. COMMITMENT SARGE: KAYA AGREES WITH U.S. THAT CHARGE SHOULD BE RAISED BACK TO .75 PERCENT LEVEL WHICH HAD PREVAILED PRIOR TO 1973. KAYA COMMENTED, HOWEVER, THAT EVEN RAISING CHARGE TO .45 PERCENT WOULD HAVE RELATIVELY SMALL IMPACT ON RECEIPTS SO THAT GOJ DID NOT SEE IT WORTH GETTING INTO A CONFRONTATION.

6. LENDING RATE REVIEW: KAYA SEES NEED TO HARMONIZE ADB WITH IBRD BUT BELIEVES THERE SHOULD BE MUCH MORE FLEXIBILITY AND LESS AUTOMATICITY. PROPOSAL TO REVIEW ADB LENDING RATE IF IBRD MOVES 10 BASIS POINTS PERFECTLY ACCEPTABLE, AND CONSIDERS U.S. PROPOSAL OF ONLY 5 BASIS POINTS WOULD REQUIRE MUCH TOO FREQUENT A REVIEW BY ADB BOARD.

7. HISTORICAL 25-BASIS POINT SPREAD OVER IBRD LENDING RATE: KAYA REJECTED IMPORTANCE U.S. PLACES ON 25-BASIS POINT SPREAD ON GROUNDS THAT IT HAD LITTLE ANALYTICAL MEANING. HE CONCEDED IBRD FIXED 50 BASIS POINT SPREAD BETWEEN BORROWING AND LENDING RATE TO COVER COSTS OF ADMINISTRATION AND LIQUIDITY. ADB REQUIRES ADEQUATE SPREAD BUT SINCE IT IS MUCH SMALLER THAN IBRD IT SHOULD BE ABLE TO RELY ON FREE INTEREST EARNED ON PAID-IN CAPITAL. FINATT COMMENTED THAT THIS WOULD BE CONTRARY TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TOKYO 11592 020939Z

"SOUND BANKING POLICIES" AND MADE IT MORE DIFFICULT FOR USG TO SUPPORT INCREASE IN ORDINARY CAPITAL FOR ADB.

8. EMBASSY COMMENT: AS IS OFTEN THE CASE, GOJ AND USG AGREE ON OBJECTIVES, BUT GOJ UNWILLING TO STAND UP FOR PRINCIPLES WHEN IT COMES TO THE INTERNATIONAL DECISION-MAKING PROCESS.  
SHOESMITH

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, DEVELOPMENT LOANS, INTEREST RATES, DIPLOMATIC DISCUSSIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 AUG 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** BoyleJA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976TOKYO11592  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760297-0027  
**From:** TOKYO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760895/aaaadfkt.tel  
**Line Count:** 115  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION TRSE  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 STATE 188415  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** BoyleJA  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 27 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <27 MAY 2004 by ifshinsr>; APPROVED <22 SEP 2004 by BoyleJA>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** INCREASE IN ADB LENDING RATE  
**TAGS:** EAID, EFIN, US, JA, ADB  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006